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UNCLAS SECTION 01 OF 02 ALMATY 001973

SIPDIS

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SENSITIVE

E.O. 12958: N/A

TAGS: [ECONOMIC](#)

SUBJECT: KAZAKHSTAN'S SCIENTIFIC SPENDING SPREE

11. (SBU) Summary: Kazakhstan has quintupled science- and technology-related spending in its most recent budget. The decision is in keeping with the GOK's long-stated goal of diversification of its economy and reduced dependence on oil revenues. The Industrial-Innovative Development Strategy for 2003-2015 identifies high-tech and science-intensive industries as promising areas for the creation of export opportunities for products with high value added. The amounts to be invested in technology are striking, including \$340 million in 2005-2007 to establish a national space program. However, while the government touts its dedication to developing a knowledge-based, diversified economy, it also grouses that its investments have not yet paid off. With implementation of the national innovation strategy already somewhat behind schedule, it is unlikely that the GOK will be able to implement so many new programs effectively. End Summary.

Spending Spree Officially Underway

12. (U) The GOK channels funds into science-intensive industries and projects in several ways. Funds from the state budget are directly applied, as in the case of the space program; in other cases a state enterprise is responsible, and in still other cases a government-run venture fund becomes an equity partner with a private enterprise to execute an "innovative" project.

13. (U) The 2005 budget includes significant increases in science- and technology-related spending over 2004. Our analysis of the two budgets reveals a quintupling - from roughly \$60 million in 2004 to over \$330 million in 2005. The spending increases include new programs, as well as a broad-based plus-up to all aspects of the state innovation structure, including salaries.

14. (U) The GOK budget includes several substantial line items supporting scientific enterprises and technological innovation in Kazakhstani industry. The single largest expenditure appears to be \$340 million through 2007 (\$113 million in 2005) for the national space company "KazCosmos." Additionally, the republic plans to spend \$189 million from 2005-2007 to build a "national innovation system." This spending is in addition to the capitalization of the Innovation and Investment Funds, endowed with \$66 and \$150 million respectively in May 2003. Another substantial line item is the \$50 million appropriated for the planned "Baiterek" rocket facility in Baikonur, plans for which include using MiG-31 aircraft to deploy small satellites.

15. (SBU) Anecdotally and through press reports, post has learned of several other expensive science-based startup projects with full or partial state financing. They include a nuclear medicine center in a proposed technology park in the formerly closed city of Kurchatov, estimated to cost \$60 million, to be built with some British assistance; and a particle accelerator near Astana. A 2006 groundbreaking is planned for a second nuclear medicine facility with a similar price tag in Alatau, site of the research reactor that the USG is helping the GOK convert to LEU fuel. The particle accelerator is intended to support prospective manufacturing of nuclear filters, although the details of the project are not known. GOK contacts have also informed us that a biotechnology park, previously intended for Stepnogorsk, will be created in Astana; the cost is likely to rival that of the nuclear technologies park.

Results Still Off in the Future

16. (U) Although the Government continually touts the Industrial-Innovative Development Strategy as the intellectual backbone of its diversification drive, its appraisal of the strategy's success to date is less

positive. Prime Minister Akhmetov lamented in mid-April that "not a single serious invention" has resulted from Kazakhstani research in the last several years. He blames the absence of promising inventions on the lack of a state-organized system for shepherding innovations through the development process.

17. (SBU) The delay in implementing the GOK's "technopark" strategy may have been at the forefront of the Prime Minister's thoughts. The GOK has been working to establish technoparks as incubators for high-tech and high-value industries since at least 2003. By late 2003 the GOK had chosen the locations, identified the fields each park would concentrate on, and reportedly begun negotiating memoranda of cooperation with foreign companies. In the intervening eighteen months, however, little has happened. When post asked to visit a technopark site near Karaganda, we were told that it is not yet worthwhile to visit any of the sites because their operations are only in preliminary stages.

18. (SBU) Additionally, several knowledgeable post contacts have expressed doubts that many of the more ambitious initiatives, such as the space program, can be achieved due to the lack of personnel with the latest training. The GOK is attempting to address this issue through its "Bolashak" exchange program, which has been expanded to allow 3,000 students to study abroad each year. The GOK has stated that it is looking to increase markedly the number of science and engineering majors served by the program.

Comment

19. (SBU) The current state of play in the field of Kazakhstan's innovation policy leads to the question of why so much is being budgeted for high-technology ventures before the country has the personnel and infrastructure to implement them. The short answer is because the GOK has the money. The GOK's very favorable financial position affords the country the opportunity to pursue multiple avenues of business creation and enhancement of national competitiveness. There is also the subtext of WTO accession, and a perception that the country has a limited time in which to provide support to industries that will still be in their infancy when Kazakhstan fully joins the global trading system. Some in the government also point to President Nazarbayev's desire to increase Kazakhstan's prestige and international profile. Whatever the reason, the government would likely get more for its money in the long run if its projects were more focused and tempered with more realism.

ASQUINO